

LUPIN

INR 602

Growth momentum to continue

BUY

We met the management of Lupin on March 1, 2007 and were more than convinced that the company is on a high growth trajectory and this momentum is likely to continue for the next two years.

Based on our discussions, we believe that Lupin's US generics business is going to drive growth with the likely launch of Cefdinir in FY08. We are also positive with the efforts the company is making in domestic formulations division, which has grown by more than 20% for the past three years. We believe this kind of growth momentum will continue going forward.

We have, therefore, revised our FY08 PAT estimate upwards by 8.5%. At CMP of INR 602, the stock trades at a P/E of 16.0x and 14.4x on our FY08E and FY09E, respectively. We reiterate our 'BUY' recommendation.

* **Regulated market generics: Strong pipeline for FY08**

Lupin has a strong pipeline of products slated to be launched over the next two years. We expect the company to launch Cefdinir in the second quarter of FY08; this is a big product for Lupin, with a branded size of about USD 700 mn. As of now, Lupin is the only generic player which has received approval. We believe there could be three other generic players on day 1 to launch Cefdinir, apart from Lupin. This limited competition is expected to provide significant margins. We expect the company to have revenues of ~ INR 1,400 mn from Cefdinir in FY08E. There could be a possible upside to these estimates as the number of generic players to launch Cefdinir on day 1 could be lower than four we have estimated.

The company is also aggressively filing for more ANDAs with a proper mix of PIIIs and PIVs. Its branded generics venture—Suprax—continues to do well; the company was able to effect some price hikes for Suprax in the previous quarter. The company has plans to launch two new line extensions for Suprax, which is likely to further boost revenues from regulated markets.

We have estimated revenues of USD 140 mn and USD 190 mn in FY08 and FY09, respectively, from regulated markets.

Financials

Year to March	FY06	FY07E	FY08E	FY08E
Revenues (INR mn)	16,061	19,972	25,080	28,791
Rev growth (%)	38.3	24.3	25.6	14.8
EBITDA (INR mn)	2,283	3,147	4,285	4,769
Net profit (INR mn)	1,827	2,312	3,323	3,702
Shares outstanding	80.3	88.5	88.5	88.5
EPS (INR)	22.8	26.1	37.6	41.8
EPS growth (%)	116.6	14.8	43.7	11.4
PE (x)	26.4	23.0	16.0	14.4
EV/EBITDA (x)	21.2	16.7	12.1	10.6
ROE (%)	28.4	30.3	34.1	30.3



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Bloomberg : LPC IN

Market Data

52-week range (INR) : 638 / 386
Share in issue (mn) : 80.3
M cap (INR bn/USD mn) : 48.3 / 1,093.3
Avg. Daily Vol. BSE/NSE ('000) : 125.5

Share Holding Pattern (%)

Promoters : 52.4
MFs, Fls & Banks : 11.4
Fls : 13.6
Others : 22.6



* **Domestic market formulations: To maintain double-digit growth**

The domestic formulations market (40% of total sales) continues to grow at a consistent rate of 24-26%. We believe this kind of growth momentum is expected to continue on account of: (1) increased focus on lifestyle diseases like CVS, CNS, diabetes etc.; (2) entry into new therapeutic areas like oncology, ophthalmology, gynecology etc.; and (3) better penetration in rural areas and lower class towns via Lupinova. We believe these efforts will translate into 32% growth in domestic formulations in FY07E and ~18% and ~10% in FY08E and FY09E, respectively.

* **Valuations**

We believe Lupin will deliver a strong performance over the next two years, given its robust growth so far in FY07, driven by strong performance of all its business segments. Significant ramp up in US generics business should be able to deliver 26% CAGR in EPS from FY06-FY09E. At CMP of INR 602, the stock trades at a P/E of 16.0x and 14.4x on our FY08E and FY09E earnings, respectively. We reiterate our **'BUY'** recommendation.

Financial Statements

Income statement					(INR mn)
Year to March	FY05	FY06	FY07E	FY08E	FY09E
Income from operations	11,611	16,061	19,972	25,080	28,791
Gross sales	12,123	16,610	20,616	26,100	29,913
Less: Excise	511	549	725	1,020	1,122
Net sales	11,611	16,061	19,891	25,080	28,791
Other operating income	-	-	81	-	-
Total operating expenses	10,341	13,778	16,825	20,795	24,022
Materials cost	5,684	7,568	9,117	11,640	13,388
Employee cost	1,257	1,557	1,907	2,384	2,860
R&D cost	798	986	1,268	1,756	2,015
Other expenses	2,602	3,667	4,532	5,016	5,758
EBITDA	1,270	2,283	3,147	4,285	4,769
Depreciation and amortisation	332	404	451	459	482
Interest	273	303	366	223	223
Other income	188	725	636	450	450
Profit before tax	853	2,302	2,965	4,053	4,515
Provision for tax	9	475	653	730	813
PAT(inc. excep. & pre minority int.)	844	1,827	2,312	3,323	3,702
PAT (inc. excep.) for equity shareholders	844	1,827	2,312	3,323	3,702

Common size metrics- as % of net revenues

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Material cost	49.0	47.1	45.8	46.4	46.5
Employee cost	10.8	9.7	9.6	9.5	9.9
Other expenses	22.4	22.8	22.8	20.0	20.0
Depreciation	2.9	2.5	2.3	1.8	1.7
Interest expenditure	2.4	1.9	1.8	0.9	0.8
EBITDA margins	10.9	14.2	15.8	17.1	16.6
Net profit margins	7.3	11.4	11.6	13.3	12.9

Growth metrics (%)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Revenues	3.7	38.3	24.3	25.6	14.8
EBITDA	(45.9)	79.8	37.8	36.2	11.3
Net profit	(13.1)	116.6	26.5	43.7	11.4
EPS	(13.1)	116.6	14.8	43.7	11.4

Cash flow statement

Cash flow statement					(INR mn)
Year to March	FY05	FY06	FY07E	FY08E	FY09E
Cash flow from operations	1,345.4	2,558	2,986	3,858	4,267
Cash for working capital	(94.8)	(1,421)	(516)	(1,483)	(1,442)
Net operating cash (outflow) / inflow	1,251	1,137	2,470	2,375	2,825
Net (purchase) / sale of fixed assets	(1,283)	(820)	(1,548)	(350)	(500)
Net (purchase) / sale of investments	1	53	-	-	-
Net cash (outflow) / inflow from investing	(1,282)	(767)	(1,548)	(350)	(500)
Proceeds from equity capital	(294.5)	4,076	(298)	(1,119)	(1,221)
Proceeds from LTB/STB	353	(66)	22	(1,500)	-
Net cash (outflow) / inflow from financing	58.5	4,011	(276)	(2,619)	(1,221)
Free cash flow	(32)	317	922	2,025	2,325

Balance sheet		(INR mn)				
As on 31st March	FY05	FY06	FY07E	FY08E	FY09E	
Shareholders funds	5,005	10,901	12,094	14,196	16,677	
Capital	401	401	803	803	803	
Reserves & surplus	4,604	6,038	6,830	8,932	11,413	
Other term liabilities		4,462	4,462	4,462	4,462	
Borrowings	4,406	4,665	4,687	3,187	3,187	
Secured loans	3,806	4,287	4,287	2,787	2,787	
Unsecured loans	600	378	400	400	400	
Deferred tax liability (net)	934	956	956	956	956	
Sources of funds	10,346	16,522	17,737	18,339	20,820	
Gross block	7,149	8,351	9,851	10,201	10,701	
Depreciation	1,559	1,927	2,377	2,836	3,318	
Net block	5,589	6,424	7,473	7,364	7,383	
Capital work in progress	698	252	300	300	300	
Investments	94	95	95	95	95	
Inventories	2,481	3,103	3,801	5,171	6,498	
Sundry debtors	2,354	3,484	4,332	5,440	6,245	
Cash and bank balances	178	4,558	5,205	4,611	5,714	
Loans and advances	1,726	2,329	1,900	1900	1900	
Total current assets	6,739	13,474	15,238	17,122	20,358	
Current liabilities	2,374	2,995	3,597	4,592	5,282	
Provisions	400	728	1,773	1,951	2,034	
Total current liabilities and provisions	2,774	3,723	5,370	6,543	7,315	
Net current assets	3,965	9,751	9,868	10,580	13,042	
Uses of funds	10,346	16,522	17,736	18,339	20,820	
Book value per share (INR)	62	80	86	110	138	

Ratios

Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROE (%)	16.9	28.4	30.3	34.1	30.3
ROCE (%)	10.9	15.8	18.8	23.3	22.8
Inventory days	159	150	152	162	177
Debtors days	74	79	79	79	79
Fixed assets T/o (x)	1.6	1.9	2.0	2.5	2.7
Debt/equity	0.9	0.7	0.6	0.3	0.3

Valuations parameters

Year to March	FY05	FY06	FY07E	FY08E	FY09E
EPS, inc. exceptionals (INR)	10.5	22.8	26.1	37.6	41.8
<i>Y-o-Y growth (%)</i>	<i>(13.1)</i>	<i>116.6</i>	<i>14.8</i>	<i>43.7</i>	<i>11.4</i>
CEPS (INR)	14.6	27.8	31.2	42.7	47.3
PE (x)	57.2	26.4	23.0	16.0	14.4
Price/BV(x)	9.6	7.5	7.0	5.5	4.4
EV/Sales (x)	4.5	3.0	2.6	2.1	1.8
EV/EBITDA (x)	41.3	21.2	16.7	12.1	10.6

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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